

TESTIMONY OF

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Before the
COMMITTEE ON FINANCIAL SERVICES
UNITED STATES HOUSE OF REPRESENTATIVES

Thursday, August 9, 2007

INTRODUCTION

Hello, Chairman Frank, Congressperson Ellison, and members of the Committee. I am Julie Gugin, Executive Director of the Minnesota Home Ownership Center.

The Minnesota Home Ownership Center is a nonprofit organization dedicated to helping low- and moderate-income Minnesotans purchase and maintain their homes. The Center, founded in 1993 by mortgage industry stakeholders concerned with affordable, sustainable home ownership, is a statewide organization with a strong record of accomplishment in supporting primarily economically disadvantaged and underserved households to access and sustain home ownership.

Mission and goals

The Minnesota Home Ownership Center's mission is to promote sustainable home ownership for low- and moderate-income Minnesotans through the development and delivery of quality, standardized education, counseling and related support services. Our goals are:

- To empower low and moderate-income households statewide to purchase and sustain affordable homes, with a major focus on those who face the greatest barriers and challenges to home ownership.
- To assure significant wealth creation for low-income individuals and communities by teaching sound financial and credit management as part of home buyer and home owner education and counseling.
- To preserve stability for families and children by preventing foreclosures.
- To conserve public and private resources within the broader community by averting the negative ramifications that foreclosures present for neighborhoods and cities.

Activities and accomplishments

To this end, the Minnesota Home Ownership Center provides key services to a network of 50 community based agencies in Minnesota. These agencies, in turn, deliver pre-purchase, post-purchase and foreclosure education and counseling programs to low- and moderate-income households. Each year, the Center and its network of agencies offer 15,000 low- and moderate-income households the tools they need to purchase and sustain their homes.

Our statewide model is unique. No other state has this centralized, standardized approach to what we believe to be the most important elements of homeownership: education and counseling. The Center supports:

- Quality curriculum for pre-purchase education and counseling.
- Training and certification for community-based home ownership educators and counselors.
- Technical assistance, including systematic, comprehensive reporting and evaluation tools.
- Leadership and technical expertise in a variety of initiatives related to affordable home ownership and foreclosure.
- Program marketing and outreach.
- Funding for our network.

In addition to its provider network, Minnesota Home Ownership Center actively works with other organizations to achieve solutions to pressing affordable housing and housing-related issues. Some examples of recent collaborative efforts include the Center's work with the metro area's Foreclosure Prevention Funders Council and the state's Emerging Markets Homeownership Initiative (EMHI)

Since its inception, the Minnesota Home Ownership Center has achieved a strong reputation both in Minnesota and nationally for developing services that are responsive to emerging consumer needs in light of changing and evolving market conditions and lending practices. As a national model, the Center is the frequent subject of inquiry and research. Nationally known organizations, such as the Ford Foundation and the University of North Carolina, have looked to the Center's work in establishing best practices and national standards for home buyer training and foreclosure prevention. The Home Ownership Center has also been the subject of national studies and symposia conducted by Harvard's Joint Center for Urban Studies, Fannie Mae, the Federal Reserve Bank, and others.

PRE-PURCHASE EDUCATION AND COUNSELING

Home Stretch – home buyer education and counseling

Home ownership is an exhilarating goal. It is also a complex venture. We believe that all home buyers should be empowered with education to enter home ownership through the *right* door. Buyers frequently lack the necessary

4,900	Households completed workshops
1,598	Households received counseling
92%	First Time Buyers
28%	Single Female Headed households
17%	First Generation Owners

knowledge and skills for financial planning, money management, identifying available loan products, and moving through the legal and financial complexities of the home buying process. Often, low- to moderate-income home owners may be unaware of affordable loan products that they qualify for. Some may be alienated from or distrustful of, the system. For many immigrants, language and cultural barriers compound the situation as they encounter concepts of personal finance and home buying that are unknown. Learning about the home buying process upfront, in a supportive and trusting environment, can remove barriers and empower households to achieve sustainable home ownership

Home Stretch is the Center's pre-purchase education and counseling curriculum that is provided to home buyers by our network partners. Education is offered in a workshop setting

79% of households participating in Home Stretch workshops, and 82% of households receiving counseling had 80% or less of area median income.

providing the knowledge home buyers need to examine their personal finances, understand the pros and cons of home ownership, determine their ownership readiness, and create a realistic plan to buy a home. Consumers gain an understanding of: the process of buying a home including principles

of real estate and terms they will encounter in their search; obtaining a credit report; planning for all costs involved in home buying; budgeting to determine what they can afford; finding and working with a real estate agent, evaluating mortgage products to avoid predatory loans; and accessing affordable loan products that will result in positive wealth creation for their families. Participants also learn to make purchase decisions factoring in anticipated costs of home maintenance and repair including arranging for a home inspection.

Attending the course is a pre-requisite for many first-time home buyer affordable loan products offered by Minnesota lenders. Home Stretch can also open doors to down payment and

closing cost assistance offered by many communities throughout Minnesota.

In surveys taken after the Home Stretch workshop, **60%** reported that they learned more than they expected, **98%** felt that Home Stretch helped them towards their goal of home ownership, and **97%** said that they would recommend the workshop to someone else

Home Stretch counselors also provide one-to-one counseling to consumers to address more complex issues that home buyers may face and to create a detailed, individualized plan, which may include creating a savings plan or enhancing their

credit. The trust that is established through this one-to-one counseling often lasts well past the home purchase. Many consumers will contact their counselors with questions about appropriately using their equity or addressing maintenance issues that might arise.

FORECLOSURE PREVENTION COUNSELING

The current foreclosure situation in Minnesota is alarming. The Twin Cities seven-county metro area experienced an 87% increase in the number of sheriff's sales in the last year. Included in that is an 81% increase in Hennepin County, and a 125% increase in Ramsey County (based on sheriff's sale data). Our greater Minnesota counties demonstrate equally shocking numbers, with foreclosures statewide increasing from approximately 6,400 in 2005 to 11,100 in 2006. The foreclosure crisis shows no signs of abating, with an analysis of greater Minnesota foreclosures in first quarter 2007 indicating that foreclosures will increase by 93% from 2006. (Taken from the *Foreclosures in Greater Minnesota*" report from the Greater Minnesota Housing Fund and HousingLink). The Center anticipates that the foreclosure crisis will continue for at least the next three years.

With overall foreclosure rates significantly increasing, we are also seeing disastrous consequences from the clustering of foreclosures in certain neighborhoods. While the problems in the urban cores of Minneapolis and St. Paul are relatively well documented, other communities in the metro are also struggling with concerns about vacancies and blight in highly-impacted neighborhoods. In Greater Minnesota, the foreclosure problem is most severe in metropolitan areas and in the counties that adjoin the Twin Cities metro. For example, projections for 2007 indicate that 3 of every 100 households in Chisago and Isanti counties will be in foreclosure this year. The scale of the problem and the enormous negative impacts on families and communities makes foreclosure prevention and remediation the most important, timely and challenging housing issue we face.

Who is experiencing foreclosures?

While the mortgage foreclosure reaching across all demographic groups in the Twin Cities, people of color, lower income families and those with subprime mortgages are at greatest risk. A recent study¹ found that almost half of the homeowners using mortgage foreclosure prevention services in Minneapolis and St. Paul were African American. This is significant,

¹ Minnesota Home Ownership Center (2007). Minneapolis and St. Paul Mortgage Foreclosure Prevention Program: An analysis of selected program data, 2005-2006

given that African American homeowners make up only a small fraction of all homeowners in the Twin Cities. This same study found that the average income of homeowners counseled through the Mortgage Foreclosure Prevention Program in 2006 was \$32,600.

Families with subprime mortgages face substantial risk of foreclosure. Subprime mortgages typically have higher interest rates and are more likely to have prepayment penalties and balloon payments than conventional mortgages. Black, Latino and Native American households typically receive disproportionately higher percentages of refinancing loans from subprime lenders.

Foreclosure Prevention Counseling in Minnesota

Minnesota is fortunate to have a strong network of housing counseling professionals and organizations committed to helping families avoid foreclosure. Foreclosure prevention counseling is available in every county in Minnesota through the Center's network of non-profit and/ government agencies. These providers help families facing foreclosure through in-depth counseling, budgeting and financial management, intervention and advocacy, emergency financial assistance, and referrals. Counselors also help homeowners develop and negotiate a recovery plan with their lenders and other creditors.

The Mortgage Foreclosure Prevention Program: a proven, cost-effective solution

The foreclosure services supported by the Minnesota Home Ownership Center and its network of community-based providers offer a cost-effective solution to the current foreclosure crisis. A study conducted by the Family Housing Fund² found that cost of preventing foreclosures through mortgage foreclosure prevention counseling was a small fraction of the cost compared to those incurred by the multiple stakeholders impacted by foreclosure. The study found that while program costs amounted to \$1.6 million to help 487 homeowners reinstate their mortgages; the averted losses to *mortgage insurers alone* were an estimated \$9.6 million. Other studies have found that foreclosures resulted in costs as high as \$34,000 per foreclosure for local governments³ and \$59,000 for the mortgage industry⁴.

The primary source of funding for the statewide Foreclosure Prevention Assistance Program (FPAP) is the Homeownership Education, Counseling and Training (HECAT) fund.

² Family Housing Fund. (1995) Cost Effectiveness of Mortgage Foreclosure Prevention.

³ The Municipal Costs of Foreclosure: A Chicago Case Study, Homeownership Preservation Foundation, 2005

⁴ Study conducted by Craig Focardi and cited in The Minnesota Housing Market: What now?, Mortgage Foundation website.

Sponsored annually by the Family Housing Fund, the Greater Minnesota Housing Fund, the Home Ownership Center, and Minnesota Housing, HECAT prevention needs in Minnesota provided \$1 million to support foreclosure prevention in the state during 2006-2007.

A Statewide Response to the Foreclosure Crisis

The commitment of public and private resources to foreclosure prevention efforts in Minnesota has been significant. However, the current foreclosure crisis has placed extraordinary demands on the foreclosure prevention system. As mentioned earlier, we anticipate that this demand will *increase* over the next three years.

The Home Ownership Center, the Family Housing Fund, the Greater Minnesota Housing Fund, and Minnesota Housing are leading a new statewide initiative designed to implement new or enhanced foreclosure intervention strategies and tools to more effectively address the foreclosure crisis in Minnesota. This effort builds on and complements the work of the Family Housing Fund under the auspices of the Foreclosure Prevention Funders Council and the emerging greater Minnesota foreclosure prevention efforts being led by Greater Minnesota Housing Fund.

The team's approach is designed to: coordinate and leverage existing, localized efforts that have emerged; target our efforts on the cities and neighborhoods that are *most affected* by this crisis; and implement strategies quickly--foreclosure prevention and remediation practices work best when implemented early, before the harshest implications of foreclosure are felt.

The Home Ownership Center's Role

The statewide network of foreclosure prevention counseling offers a proven method of helping families stay in their homes. Current Home Ownership Center data shows that 60% of families who receive foreclosure prevention counseling through the existing provider network are still current on their mortgages two years after receiving assistance.

The Home Ownership Center is adamantly committed to the critical role that foreclosure prevention counseling plays in addressing the complex issue of foreclosures. We are continually addressing ways to add capacity within the foreclosure prevention system that is taxed to its limit during this challenging time. Identifying additional public and private resources to increase the number of counselors is one strategy. We are also examining ways to modify the programming model to ensure that we are optimizing our client services when the consumer demand is so high.

Targeted outreach and education to homeowners most at risk of foreclosure and to a broader stakeholder group is also a priority. Acting early empowers homeowners with more options for addressing their foreclosures. Yet, a natural response to a financial crisis, when people may feel ashamed, embarrassed, and certainly fearful about their situations, is to wait. Our goal is to implement a campaign that starts with utilizing early warning systems that identify specific households within impacted regions that are at greatest risk. We will then deliver a variety of outreach tools that will: encourage action; educate about the foreclosure process and consumer rights; and direct consumers to counseling.

Our outreach and education will also raise awareness about foreclosure with a broader stakeholder group, including: social service referral agencies; neighborhood and community-based organizations; elected officials and other community leaders; faith-based organizations; and other places that consumers turn to in times of need. It's important for this audience to know that services are available and how they can contribute to addressing this crisis - within a household or within their community.

CONCLUSION

Minnesota's model of offering a consistent, standardized, and professional approach to home ownership education and counseling has proven its effectiveness in preparing home buyers for the responsibilities and advantages of home ownership and for empowering home owners to sustain their homes. The success of the model is attributable to three primary factors:

- A localized approach. We believe the home ownership education and counseling is optimally delivered locally, through providers who understand: the nuances of the local housing market, local lending tools, and trusted industry partners.
- Support from our industry partners. Our network is sustained through the sponsorship of our generous lender partners, our state housing finance agency, and numerous other affordable housing stakeholders who champion our mission.
- The patience, perseverance, and compassion of our educators and counselors. While their work is frequently gratifying, the challenges are daunting. Their creativity and spirit delivers a high-quality, critical program to the communities they serve.

I appreciate the time you have committed to learning about and addressing this issue. Thank you for the opportunity to share our perspective.